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BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER,
CHAIRMAN
WILLIAM A. MUNDELL,
COMMISSIONER
JEFF HATCH-MILLER,
COMMISSIONER
MIKE GLEASON,
COMMISSIONER
KRISTIN K. MAYES
COMMISSIONER

Arizona Corporation Commission
DOCKETED

OCT 31 2003

DOCKETED BY	
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IN THE MATTER OF THE
APPLICATION OF ARIZONA-
AMERICAN WATER COMPANY, AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY
ITS SUN CITY WEST WATER AND
WASTEWATER DISTRICTS.

Docket Nos. WS-01303A-02-0867
WS-01303A-02-0868
~~W-01303A-02-0869~~
WS-01303A-02-0870
W-01303A-02-0908

IN THE MATTER OF THE
APPLICATION OF ARIZONA-
AMERICAN WATER COMPANY, INC.,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY
ITS SUN CITY WATER AND
WASTEWATER DISTRICTS.

**INTERVENOR SUN HEALTH
CORPORATION'S NOTICE OF
FILING SURREBUTTAL
TESTIMONY**

1 IN THE MATTER OF THE
2 APPLICATION OF ARIZONA-
3 AMERICAN WATER COMPANY, AN
4 ARIZONA CORPORATION, FOR A
5 DETERMINATION OF THE CURRENT
6 FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY
ITS MOHAVE WATER AND HAVASU
WATER DISTRICTS.

7 IN THE MATTER OF THE
8 APPLICATION OF ARIZONA-
9 AMERICAN WATER COMPANY, AN
10 ARIZONA CORPORATION, FOR A
11 DETERMINATION OF THE CURRENT
12 FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY
ITS ANTHEM WATER, AGUA FRIA
WATER AND ANTHEM/AGUA FRIA
WASTEWATER DISTRICTS.


13 IN THE MATTER OF THE
14 APPLICATION OF ARIZONA-
15 AMERICAN WATER COMPANY, AN
16 ARIZONA CORPORATION FOR A
17 DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY
ITS TUBAC WATER DISTRICT.

18
19 Notice is given that Intervenor, Sun Health Corporation has filed the surrebuttal
20
21
22
23
24
25
26

1 testimony of William T. Sellner this date.

2 RESPECTFULLY SUBMITTED this 31st day of October, 2003.

3 JENNINGS, STROUSS & SALMON, P.L.C.
4

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20 this 31st day of October, to:

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12 CHAIRMAN
13 WILLIAM A. MUNDELL,
14 COMMISSIONER
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20 COMMISSIONER

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WS-01303A-02-0870
W-01303A-02-0908

**INTERVENOR SUN HEALTH
CORPORATION'S SURREBUTTAL
TESTIMONY**

1 IN THE MATTER OF THE
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4 ARIZONA CORPORATION, FOR A
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23 WASTEWATER DISTRICTS.

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THEREON FOR UTILITY SERVICE BY
ITS TUBAC WATER DISTRICT.

SURREBUTTAL TESTIMONY
OF
WILLIAM SELLNER

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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3
4 A. William T. Sellner
5 13180 N. 103rd Avenue
6 Sun City, AZ 85351

7 **Q. BY WHOM AND IN WHAT POSITION ARE YOU EMPLOYED?**

8 A. Sun Health Corporation – Chief Financial Officer

9 **Q. HOW LONG HAVE YOU BEEN EMPLOYED BY SUN HEALTH?**

10 A. 10 years

11 **Q. WHAT ARE YOUR RESPONSIBILITIES AS CHIEF FINANCIAL
12 OFFICER?**

13 A. Direct responsibility for financial reporting and budgeting, patient account services,
14 including billing and collection, purchasing and materials management, information
15 services, environmental services and risk management. Beyond the direct reports, I have
16 overall responsibility for fiscal management of Sun Health and its affiliates.

17 **II. PURPOSE OF TESTIMONY**

18 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

19 A. I will provide surrebuttal testimony in response to the rebuttal testimony filing by
20 Arizona – American Water Company. More specifically, my surrebuttal testimony is in
21 support of Arizona – American's comments regarding Staff's proposed rate design
22 recommending a three-tier inverted block rate structure.
23
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1 **Q. HOW WILL YOUR SURREBUTTAL TESTIMONY BE ORGANIZED?**

2 A. I will first provide a description of Sun Health and its operations in Sun City, Sun
3 City West, Youngtown, El Mirage and Surprise. As I will discuss in greater detail, we are
4 a non-profit entity that provides vitally needed medical services to the residents of those
5 communities and other communities in northwest Maricopa County.
6

7 The second part of my testimony will focus on our concerns regarding Staff's
8 proposed rate design. I will discuss some of the issues about that design raised in the
9 rebuttal testimony of Ronald Kozoman. The structure proposed by Staff may unfairly
10 penalize our facilities.
11

12 **III. DESCRIPTION OF SUN HEALTH AND ITS FACILITIES**

13 **Q. WHAT IS THE SUN HEALTH CORPORATION?**

14 A. Sun Health Corporation, is an Arizona non-profit corporation and is tax-exempt,
15 pursuant to Section 501(c)(3) of the Internal Revenue Code. It owns and operates a
16 community healthcare network that offers a full range of health and wellness services to
17 the residents of northwest Maricopa County, primarily in the communities of Sun City,
18 Sun City West, Youngtown, El Mirage and Surprise. Sun Health Corporation owns and
19 operates two acute care hospitals, a skilled nursing facility, an Alzheimer's facility, two
20 hospice residences, a home health agency, a residence for developmentally disabled adults,
21 four physician clinics, a research institute and a nursing school program.
22
23

24 **Q. PLEASE DESCRIBE THE HOSPITAL FACILITIES OPERATED BY SUN
25 HEALTH.**

26 A. We operate two major hospital facilities that serve the community. The Walter O.

1 Boswell Memorial Hospital, a 343 licensed-bed hospital including 283 general acute care
2 beds, 40 rehabilitation beds and 20 skilled nursing facility beds. The hospital provides
3 inpatient/outpatient general medical and surgical acute care, skilled nursing care and
4 rehabilitation services. We also operate the Del E. Webb Memorial Hospital, a 269
5 licensed-bed including 182 general acute care beds, 34 psychiatric beds, 26 rehabilitation
6 beds and 27 skilled nursing facility beds, providing inpatient/outpatient general medical
7 and surgical acute care, skilled nursing care, psychiatric services and rehabilitation
8 services. Both hospitals provide intensive care and 24-hour emergency services.
9
10

11 **Q. WHAT OTHER SERVICES DOES SUN HEALTH PROVIDE TO THE**
12 **COMMUNITY?**

13 **A.** Additional services include:

- 14 • Sun Health Care Center – a 128 licensed-bed skilled nursing care facility
15 providing sub-acute and custodial care.
- 16 • Sun Health Home Care Services – provides a blend of services at the patient's
17 residence to promote, maintain and restore health.
- 18 • Sun Health Alzheimer's Residence – a 36-bed facility offering services to
19 patients with early to mid-state Alzheimer's disease and dementia.
- 20 • Sun Health Hospice Care Services – provides a combination of inpatient and
21 outpatient care and support services for terminally ill patients, including a 12-
22 bed facility providing inpatient hospice care with a second 12-bed facility under
23 construction.
- 24 • Sun Health Residence for Special Adults – a 10 room facility for
25 developmentally disabled adults who are unable to live independently.
- 26 • Sun Health Personal Care Services – provides a variety of home-based services
including personal hygiene and preparation of basic meals to enable individuals

1 to remain independent in their homes.

- 2 ● Sun Health Community Education Center – provides a wide-range of
3 community education programs and support groups, including the operation of a
4 health education library.
- 5 ● Sun Health Olive Branch Senior Center - offers area senior residents a variety of
6 structured activities including health and wellness programs, recreational and
7 socialization events and hot nutritious lunches.

8 **Q. PLEASE DESCRIBE SUN HEALTH'S INVOLVEMENT IN THE**
9 **COMMUNITY.**

10 A. In addition to all of the direct healthcare services, Sun Health sponsors many
11 community service programs, including health education seminars and lectures; support
12 discussion groups for victims of cancer, stroke, heart disorders, diabetes, and Alzheimer's
13 disease; screening and early detection services; classes in nutrition, weight control and
14 diabetes education; a telephone reassurance program; and a basic life support center that
15 provides cardio-pulmonary resuscitation training.

16 Sun Health sponsors health fairs, a health newsletter and two libraries dedicated to
17 the health and wellness needs of adults. More than 54,000 persons attended community
18 education related services in 2002.

19 In addition, Sun Health operates the Sun Health Research Institute founded in 1986
20 as a private, non-profit biomedical research center dedicated to the study of age-related
21 diseases such as Alzheimer's, Parkinson's and Arthritis. Sun Health Research Institute
22 collaborates with other research entities in Arizona, including the Mayo Clinic Scottsdale,
23 Barrow Neurological Institute, Arizona State University, and Banner Health. The research
24 conducted at Sun Health is recognized around the world, and is contributing immensely to
25
26

1 the fight for finding cures and treatments to these debilitating diseases that affect the
2 residents of Arizona.

3 **Q. HOW MANY PEOPLE IN THE COMMUNITY ARE SERVED BY SUN**
4 **HEALTH?**

5 A. Sun Health is the dominant provider of inpatient acute hospital services to the
6 residents of Sun City, Sun City West, as well as Youngtown and Surprise. The majority of
7 the residents of these communities received their inpatient hospital care with Sun Health
8 Corporation.

9
10 In 2002, Sun Health set a record for treating almost 30,000 inpatients and more than
11 62,000 emergency department patients as well as providing 190,000 outpatient procedures.

12 The population of Sun Health's primary service area is expected to increase by 16%
13 by 2007.

14
15 **Q. HOW DOES SUN HEALTH SUPPORT ITS ACTIVITIES?**

16 A. Volunteer and contributed financial support as well as investment revenue
17 generated by Sun Health Properties, Inc. are critical to the well being of Sun Health.

18 Sun Health Corporation's activities are supported by the Sun Health Auxiliary, an
19 association of over 3,900 dedicated volunteers who contribute their time and talents to
20 promote the objectives of the constituents of Sun Health through fund raising and by
21 providing services which are supplementary and complementary to essential services. In
22 2002, these volunteers contributed over 482,480 hours of service to Sun Health
23 Corporation and their cumulative hours exceed 8 million.
24
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1 **IV. COMMENTS ON RATE DESIGN**

2 **Q. PLEASE DESCRIBE STAFF'S PROPOSED RATE DESIGN.**

3 A. Staff is proposing a three-tier inverted block rate structure with break over points at
4 4,000 gallons and 100,000 gallons. Staff's witness, Mr. Rodgers, describes the purpose of
5 this recommendation on page 5 of his direct testimony which states "Staff recommends a
6 rate design that encourages planners to design growth to efficiently use water, to promote a
7 reduction in the average use in the long term, and to reduce the incremental cost of future
8 growth consistent with its increasing cost." Mr. Rodgers further expresses his belief that
9 the tiered rate structure will promote a reduction in water usage by monetarily rewarding
10 customers who can limit their use below the 4,000 and 100,000 gallon breakpoints.
11

12 **Q. DO YOU AGREE WITH STAFF'S PROPOSED RATE STRUCTURE?**

13 A. No. While we support efforts to conserve water, we do not believe the method
14 chosen will result in a reduction of water usage. The rate design proposed by Staff
15 assumes that all users can confine their water use to the break over points established by
16 Staff. The rate design fails to account for differences in customer classes. A reasonable
17 consumption requirement for a residential user or an industrial user is not the same as a
18 reasonable consumption requirement for a hospital and other healthcare facilities. Because
19 the rate design fails to account for such differences, we do not believe it will encourage
20 conservation and it could result in the hospitals subsidizing the rates of other users.
21
22
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1 **Q. WHY WOULDN'T THE PROPOSED BREAK OVER POINTS**
2 **ENCOURAGE WATER CONSERVATION?**

3 A. The break over points are unrealistic for our facility. It would be impossible for the
4 majority of our facilities such as hospitals to reduce water consumption below 100,000
5 gallons and still provide service. Attached to my testimony is a water usage comparison
6 for twelve months ending September 30, 2003. Our two hospital facilities utilize an
7 average of just over 6 million gallons of water per month. There is no way to manage to
8 the break over points established by Staff. The break over points are so unrealistic that it
9 would not be a prudent investment to even try to meet the standards established by the staff
10 proposal.
11

12 **Q. YOU ALSO MENTIONED THAT THE YOU THOUGHT THE RATE**
13 **DESIGN COULD RESULT IN THE HOSPITAL SUBSIDIZING THE**
14 **RATES OF OTHER WATER USERS. PLEASE EXPLAIN WHY YOU**
15 **BELIEVE SO?**

16 A. Since it would be impossible to meet the standards established in the Staff proposal,
17 Sun Health would be forced to pay a higher rate for its water. Based on rebuttal testimony
18 provided by Mr. Kozoman at page 27, it appears that Staff's proposal will shift a large
19 portion of the revenue requirements to customers using over 100,000 gallons monthly. As
20 I mentioned earlier, our non profit hospitals use well over 60 times the 100,000 gallon
21 break over point per month. Under the Staff's proposal Sun Health, a non profit
22 corporation will end up subsidizing customers and businesses that have lower water usage
23 demands.
24
25
26

1 **Q. HOW WOULD SUN HEALTH'S RATES BE AFFECTED IF THE**
2 **COMMISSION WERE TO ADOPT THE COMPANY'S REVENUE**
3 **REQUIREMENTS AND STAFF'S RATE DESIGN?**

4 A. This is our primary concern. The revenue requirements proposed by the Company
5 in its surrebuttal testimony called for a 70.62% increase for the Sun City District and a
6 36.13% increase for the Sun City West District. We are very concerned that combining
7 the Company's revenue requirements with the Staff rate design, which calls for higher
8 rates on large water users, could significantly increase our rates. We filed data requests
9 with both Staff and the Company to get more information on the impact of our rates.

10 **Q. HOW WOULD AN INCREASE IN YOUR RATES AFFECT THE**
11 **OPERATIONS OF SUN HEALTH?**

12 A. This answer will obviously depend on the amount of the increase. A significant
13 increase will exacerbate our losses. Providing healthcare to our community residents in
14 principally a Medicare environment, mandates effective and efficient operations. Our
15 hospital system has been nationally recognized as a cost efficient operation and we
16 benchmark in the top quartile for cost effectiveness when compared to our peers. A
17 significant increase in our water rates will provide a further cost challenge to an already
18 challenging healthcare environment as it relates to costs associated with nursing personnel,
19 supplies and technology advances.
20
21

22 **Q. WHAT DO YOU HOPE TO GAIN FOR SUN HEALTH BY INTERVENING**
23 **IN THIS RATE CASE?**

24 A. We believe the Staff's three-tiered inverted block rate structure should recognize
25 the differences in consumption rates for large users. Separate break over points for
26

1 hospitals and similar facilities should be established to provide reasonable and attainable
2 goals for a reduction in consumption.

3
4 **Q. WHAT DOES SUN HEALTH CURRENTLY DO TO REDUCE WATER CONSUMPTION?**

5 A. The measures we take to reduce water consumption are as follows:

- 6 • Timers on all sprinkler and plant drip irrigation systems; we continuously
7 monitor for run-off from the landscaping to minimize usage.
- 8 • Water minimizer plumbing fixtures are installed for water closets, showers and
9 sinks in the patient areas; electronic faucets and urinals are installed in public
10 restrooms.
- 11 • Automatic blowdown systems on boilers to minimize water usage.
- 12 • Closed loop water cooling on water sealed pumps to eliminate water flow to
13 drains.
- 14 • Maintain close control of water treatment systems to minimize excessive
15 blowdown and backwash usage of water.
- 16 • No humidifiers are used in our buildings air conditioning systems.
- 17 • The buildings chilled and hot water systems are closed loop so that no water is
18 dumped down drains.
- 19 • The potable hot water system is a recirculating type to provide immediate hot
20 water to the faucets to minimize flow to drains.
- 21 • Plants used in landscaping are selected for minimum water requirements.
- 22 • Minimize use of water features in our buildings and on our grounds.

23 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

24 A. Yes, it does.
25
26